

CLIMATE REPORT 2017

PRIVATE SECTOR AND CLIMATE FINANCE IN THE G20 COUNTRIES

ABOUT THE REPORT

The G20 countries comprise two thirds of the global population as well as more than three quarters of the world's economic output, trade and CO₂ emissions. Climate change is on the G20 agenda as a central future issue, also as an economic and fiscal challenge because corresponding investments from the private sector are a prerequisite for the fulfilment of the Paris climate protection goals. Our latest Climate Report, which continues the series from 2007, 2011 and 2014, provides answers to the question of how far the private sector plays a role in climate financing in the G20 countries.

JAPAN

In order to mitigate the consequences of climate change, the Japanese government plans undertaking comprehensive measures with respect to climate finance. The central idea of the Japanese climate policy is the reduction of greenhouse gas emissions by means of technical innovations. Part of the Japanese strategy is to promote financing from the private sector. The finance industry is making efforts to stimulate investment in sustainable projects. An action plan that has also been under discussion for quite some time is the establishment of a national emissions trading system.



Japan is considered a pioneer and to have the most advanced market in the field of e-mobility. Source: © aozora1, iStockPhoto

JAPAN'S CLIMATE POLICY OBJECTIVES UNDER CRITICISM

Shortly before the Paris Climate Change conference (COP21), the Japanese government announced the future targets it set for climate protection. The public response to the communication of Japan's Intended Nationally Determined Contribution (INDC) by the United Nations Framework Convention on Climate Change (UNFCCC) was muted. The Japanese government set the goal of achieving a 26 percent reduction of its global greenhouse gas emissions by fiscal year 2030, and an 80 percent reduction by 2050. The year 2013 serves as the base year. Japan had very high CO₂ emissions in 2013. The numbers get relativized accordingly when one correlates them with the international reference year 1990. Even then this would correspond to only a reduction by approximately 16 percent by the year 2030, and by 2050, it is only around 25 percent.

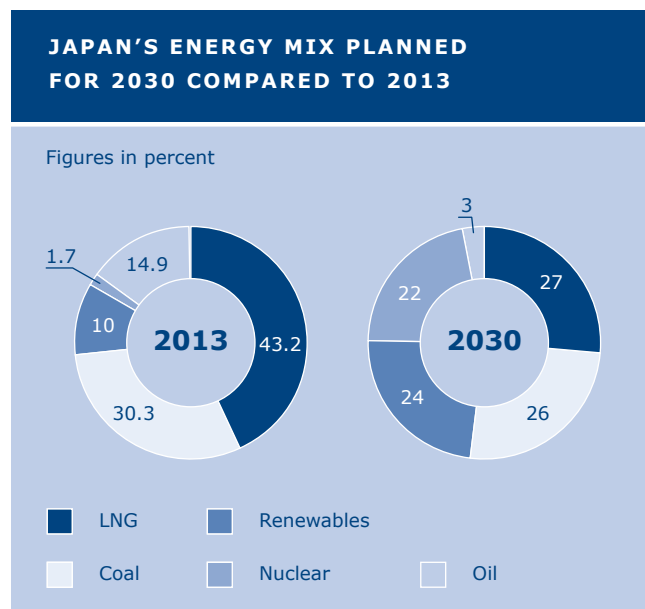
Some members of the international community criticised Japan's INDC as being disappointing. It represents a setback in the Japanese climate policy and is not in accordance with the Copenhagen Climate Change Conference (COP15). On account of the low INDC, the Climate Action Network Europe and Germanwatch have placed Japan for the year of 2017 at 60 in a list of 61 in their annual publication "Climate Change Performance Index". Only Saudi Arabia has been valued lower than Japan.

ENERGY SECURITY AS THE DOMINANT FACTOR

Even six years after Fukushima the Japanese climate policy is still influenced by the consequences of the triple-disaster that struck the land. An energy deficit of 30 percent arose as a result of shutting down the nuclear power plants. In order to fill this gap the Japanese government had to switch to managing its energy requirements by importing fossil fuel. The

dependence on gas, coal and oil which covered approximately 90 percent of Japan's energy consumption in 2013 lowered its self-sufficiency rate to 6.1 percent, which was around 20 percent in 2010.

The deciding factor of the Japanese climate policy is security. Japan's energy strategy consists of three mainstays. First, energy security is to be achieved via a self-sufficiency rate of 25 percent, secondly, financial resources should be invested in the expansion of the power network as efficiently as possible. Both these steps would lead to more intensive utilisation of coal and atomic power, the two most cost-effective energy sources on the Japanese market. Furthermore, the Japanese energy deficit after the Tōhoku earthquake can be closed by reactivating the atomic plants. The expansion of the coal power plants as already announced by Shinzō Abe is a result of cost-benefit analysis.



Source: METI 2015

Thirdly, in order to reduce the CO₂ emissions, both renewable and atomic energy shall be used. In addition, technical innovations must make the use of gas and coal energy more environment-friendly. Altogether, the Japanese government expects economical, ecological and energy security.

A SLOW SHIFT IN CLIMATE FINANCE

In order to mitigate the consequences of climate change, the Japanese government plans undertaking comprehensive measures with respect to climate finance. Part of the Japanese strategy is to promote financing from the private sector (PCF). Under the heading "Cool Earth 2.0" (ACE2.0), the Japanese government intends to spend at least 1.3 trillion yen yearly from 2020 onwards as part of the global climate finance. The funds for the aid shall be composed of both, public funds and private investments. It is planned to attract private sponsors in future for the greater part of the climate finance. The past shows a large state-coordinated climate financing. A stronger involvement of the private sector is intended. Official Development Assistance (ODA) forms the central pillar of Japan's climate policy. Independent private sector climate finance is not the norm.

In Japan, there is a very broad understanding of climate finance. Climate finance encompasses the sum total of all funds which have the objective of reducing greenhouse gas emissions. This includes not only the promotion of renewable energy resources or providing support for measures connected to raising awareness for climate protection but also investments in technological innovations of fossil energy resources (e. g. Carbon Capture and Storage, CCS). Technological innovations are an integral part of the debate on climate protection and are promoted in accordance with it. In the recent past, there has been criticism by NGOs against Japan's handling of the debate on climate change.

Japan's climate finance is composed of the publicly financed ODA, OOF (Other Official Flows) and the private investments. Besides these, Public Private Partnerships (PPP) are assuming an ever greater importance. Public institutions like JBIC Japan Bank for International Cooperation (JBIC) and Nippon Export and Investment Insurance (NEXI) provide support to Japanese companies in their investments, thus promoting PCF. In this sense, PPP-projects are key components in the promotion of PCF. The ODA-programmes are coordinated by the Japan International Cooperation Agency (JICA).

TECHNICAL INNOVATIONS FORM THE CORE

On 18 April 2016, the Ministry of Economy, Trade and Industry (METI) put forth an energy strategy under the heading NESTI 2050 as a reaction to the Paris Agreement. At a first glance, it is difficult to distinguish it from the previous strategy. The three mainstays of the climate policy are still energy reduction, energy storage and the development of renewable energy resources. However, in detail it can be seen that the renewable energy resources are assigned a more central role in comparison to the previous plans, in particular geothermal energy and photovoltaic plants. The central idea of the Japanese climate policy is however still the reduction of greenhouse gas emissions by means of technical innovations. A reason for the strong focus of the Japanese government on the expansion of climate-friendly technologies and better energy storage is that the targeted energy mix for 2030 was fixed even before the INDC. The energy mix has to be met on all accounts.

For the purpose of promoting technical innovations, the Japanese government initiated various programmes. Japan organises important forums like "Innovation for Cool Earth Forum" (ICEF) and "Clean Energy Ministerial" (CEM) to promote technical innovations. Traditionally, a high level of importance is attached to RD&D (Research, Development and Demonstration) in Japan. With respect to RD&D investments, Japan held third place behind

the USA and China in 2014. The highest share was invested in nuclear energy (2014: 47 percent), renewable energy resources received only 21 percent, fossil energy resources approximately twelve percent. 15 percent of the funds was invested in the development of energy efficiency.

PRIVATE CLIMATE FINANCE THROUGH NEW INSTRUMENTS?

An action plan that has been under discussion for a long time is the establishment of a national emissions trading system. The one that is already in use in the metropolitan region of Tokyo could serve as a model. Tokyo has provided a model since 2010 as to how an effective strategy regarding climate change may look like in Japan. Intelligent and realistic goals were set with respect to the CO₂ emissions which give the industry stimulation to reduce greenhouse gas emissions. With this, Japan's first emissions trading system was introduced.

Formulations for "green finance" are not uncommon in Japan even when they take place within a manageable context. The finance industry is making efforts to stimulate investment in sustainable projects. This is to be achieved by means of financing plans from banks for the borrower. Investments in renewable energy resources were limited on account of poor tariffs but could become more attractive in the near future through government measures. It is a medium-term objective of the Japanese government to make regional investments in sustainable projects more attractive for the local industry.

JAPAN'S CLIMATE FINANCE WORLDWIDE

At the G20 summit of 2014, Japan announced contributions to the Green Climate Fund (GCF). With 1.5 billion US dollars, Japan is one of the largest donors. The fund is the most important category for Japan's climate finance. The largest share of

the Japanese climate finance flows into the GCF. In 2013, the Ministry of the Environment (MOE) started the Green Finance Organization, an institution which was to promote private climate finance. 78 million US dollars has been mobilised through this path since the fiscal year 2013.

The latest ODA projects are located in Africa. At the Sixth Tokyo International Conference on African Development (TICAD VI), support for a photovoltaic plant in Egypt and a geothermal plant in Kenya were approved, as was an additional 1.8 billion US dollars towards activities for climate protection projects. The projects which have been announced are to be financed largely as PPP projects. The main objective is however to encourage Japanese private investments in Africa and thus forming a basis for future climate programmes, e.g. through human resource development. At least 1,000 persons are to be specially trained and sensitized to bring about a sustainable development on the African continent.

In addition, Japan announced at the COP22 that it would be participating intensively in the Nationally Determined Contributions (NDC) partnerships because they are absolutely necessary for it to achieve the targets of the Paris Agreement. The cooperation with international organisations is to be continuously intensified over the next few years.

JAPAN WAVERS

In conclusion, it may be said that Japan has provided many ideas regarding promoting PCF. Most of it however was concluded after the COP15; on the other hand, COP21 could not exercise an equivalent stimulus on the Japanese climate policy.

Non-transparent communication on part of the ministries did not allow for an in-depth assessment of the actual extent of PCF. Characteristic is also the strong state control over the PCF.

The private investments flow almost exclusively into projects which are at least partly supported by the Japanese government. The competence distribution in the Japanese climate policy between METI, MOE and Ministry of Foreign Affairs (MOFA) is responsible for it. It is also noticeable that significantly more projects for offsetting the consequences of climate change (mitigations) are supported, but almost none for adaptation to the consequences of climate change (adaption).

In the past, Japan had used the platforms of the G20 and G7 summits to present its climate goals to the global community. In 2014, at the G20 Summit in Brisbane, Prime Minister Abe announced Japan's investments in the GCF. Since then, Japan has become suspiciously silent at the summits when dealing with matters concerning formulating definitive climate goals. The Japanese government just nods in acquiescence to the outcome of the negotiations without however taking the initiative to present new measures against climate change. It remains to be seen what measures the Japanese government still wants to keep open for itself after the G20 Summit in Hamburg.

Hannes Bublitz is Associate Researcher and Project Coordinator at the Konrad-Adenauer-Stiftung Office in Tokyo.